



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Required Report - public distribution

Date: 10/27/2006

GAIN Report Number: HK6028

Hong Kong

Retail Food Sector

Annual

2006

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Report Highlights:

Hong Kong (H.K.) imported \$7 billion of high value food and seafood products from the world in 2005, \$820 million of which came from the U.S. Total imports in 2006 are running 8% higher and are expected to reach \$7.6 billion, while imports from the U.S. are expected to reach \$870 million, a 6% increase. The U.S. is second only to China in supplying food and seafood products to H.K. Many factors make H.K. an attractive market for U.S. exports. These include an affluent economy, consistent rule of law, transparent import regulations, free flow of capital, no import tariffs (except on alcoholic drinks), a sophisticated business infrastructure, and traders' proficiency in English. H.K. also serves as an important transshipment point. Many local traders have strong ties with China, Macao and South East Asia. In 2005, H.K.'s 7 million residents and 23 million tourists purchased nearly \$14 billion in food & beverage products from retail outlets and restaurants (retail sales & restaurant receipts amounted to \$6.4 billion and \$7.3 billion respectively), making Hong Kong the 11th largest market for U.S. food and seafood products. Retail sales of food and beverages have increased over 6 % in the first 8 months of 2006 and are expected to maintain this pace for the rest of the year. Given a continuing buoyant economy, retail sales are expected to continue to grow in 2007. Major U.S. export items to H.K. include fruit, poultry meat and tree nuts. In the coming years, H.K. offers good sales prospects for U.S. exports of eggs, juices, scallops and oysters, wine and organic food products. Despite a highly concentrated retail industry, most food and beverage products are imported by distributors.

Includes PSD Changes: No

Includes Trade Matrix: No

Annual Report

Hong Kong [HK1]

[HK]

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(Statistics used in these reports are drawn from Hong Kong Census & Statistics Department.)

SECTION I. MARKET OVERVIEW

Food Imports

- Hong Kong is a mature and sophisticated market that depends almost entirely upon imports for its food and beverages. China dominates exports for this sector, with the U.S. being the 2nd largest supplier. While there is a significant growing market for gourmet foods, most Hong Kong shoppers are price conscious consumers looking for “value for money” products. Price and quality are equally important. Hong Kong’s imports of consumer oriented products and seafood products amounted to \$5.3 billion and \$1.9 billion respectively in 2005. Major import items include red meats, fruits, poultry meat, dairy products, and snack foods to tree nuts. The affluent middle class, a large segment of the Hong Kong population, also provides a niche market for new, trendy and high-end products. Some fast growing product categories are included in the following table.

Hong Kong’s Total Imports with Significant Growth (US\$ million)

	2004	2005	05/04	2006	06/05
			Growth Rate	(estimated)	Growth Rate
Poultry Meat	521	581	11%	656	13%
Fruit & Vegetable Juices	23	29	30%	32	10%
Tree Nuts	206	257	25%	285	11%
Salmon	50	60	19%	85	42%

Note: Imports including re-exports

2006 estimates are based on growth rate between Jan – Sept 2005 & Jan – Sept 2006

Source : World Trade Atlas - Hong Kong Census & Statistics Department

- Hong Kong is an important market for U.S. consumer-oriented foods and ranks tenth as a U.S. export destination for these high-value products. Hong Kong imported over \$758 million worth of consumer-oriented products from the United States in 2005, which accounted for 14 percent of the market share. Of all U.S. consumer-oriented exports to Hong Kong in 2006, fresh fruit, poultry meat, tree nuts, processed fruit & vegetables, and snack foods are the leading items. These products are very likely to have promising growth in 2007 if Hong Kong’s economy continues to remain robust as predicted. U.S. exports of beef to Hong Kong are also expected to pick up gradually in 2007. (U.S. beef exports to Hong Kong was banned between December 2003 and January 2006 because of BSE cases in the U.S.) Hence, U.S. exports of all high-value products are forecast to rise 6 percent in 2006 and grow at a similar pace – 6 percent - in 2007.
- For fish and seafood products, the United States exported \$66 million worth of products to Hong Kong, maintaining 4 percent of the market share. Hong Kong’s imports of U.S. seafood products in 2005 recorded a 14 percent increase compared to 2004. Based on the trade performance of the first nine months of 2006, U.S. exports of seafood products to Hong Kong are expected to rise 16 percent this year. In the past five years, U.S. exports of seafood products to Hong Kong grew over 60 percent, reflecting the growing popularity of the products in this market. There is reason to expect the growth to continue into 2007 at a rate of about 10 percent.

Hong Kong's Imports from the U.S. with Significant Growth (US\$ million)

Imports from the U.S.	2004	2005	05/04	2006	06/05
			Growth Rate	(estimated)	Growth Rate
Eggs & Products	13	16	25%	16	0%
Processed Fruit & Vegetables	62	67	8%	70	5%
Fruit & Vegetable Juices	8	15	80%	20	33%
Molluscs*	28	39	41%	48	23%

Note: Imports including re-exports

2006 estimates are based on growth rate between Jan – Sept 2005 & Jan – Sept 2006

* includes mainly scallops and oysters

Source : Hong Kong Census & Statistics Department

- Hong Kong serves as an important gateway to the huge market in China as well as the Asia-Pacific region. About 10 percent of Hong Kong's consumer-oriented food imports are re-exported to China. Additionally, many more products have been transshipped to China but not officially recorded in Hong Kong trade statistics. Despite products shipped directly to China without landing in Hong Kong, much of the decision making process, including placing orders, still takes place in Hong Kong. Many U.S. exporters, particularly new to Asia ones, have said they feel more comfortable dealing with Hong Kong traders who generally conduct business in English. U.S. exporters can also take comfort in Hong Kong's consistently applied import regulations, rule of law, efficient business infrastructure, free flow of capital and zero tariff's on all agricultural products except alcoholic beverages. Hong Kong is a stepping stone for the huge market in China. Many exporters still prefer to do China trade through Hong Kong companies and this trend is expected to continue.
- Due to limited land resources and rapid urbanization, Hong Kong has to rely heavily on imports for its food supply. In 2005, local production contributed only 4 percent of fresh vegetables, 52 percent of live poultry, and 18 percent of live pigs to local consumption. The agricultural industry produced \$152 million worth of agricultural products in total. However, Hong Kong's total imports of consumer-oriented products and fish & seafood products amounted to \$5.3 billion and \$1.9 billion respectively.

Economy

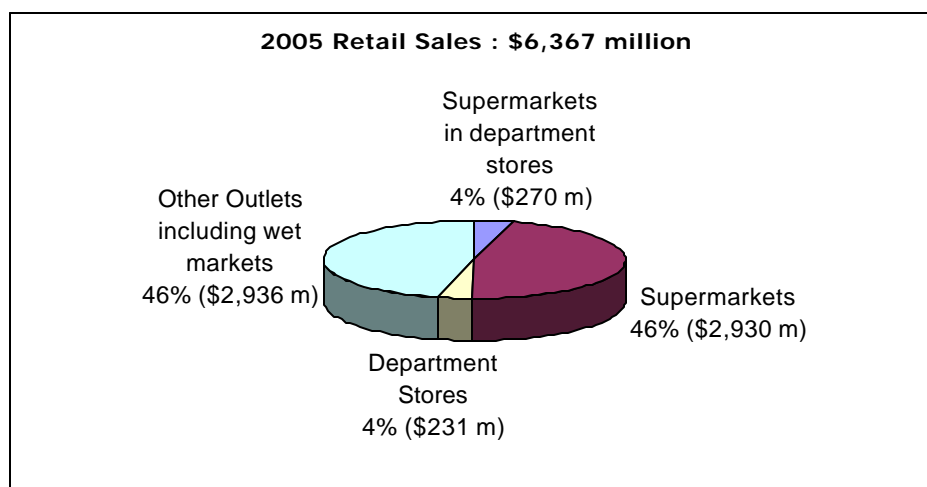
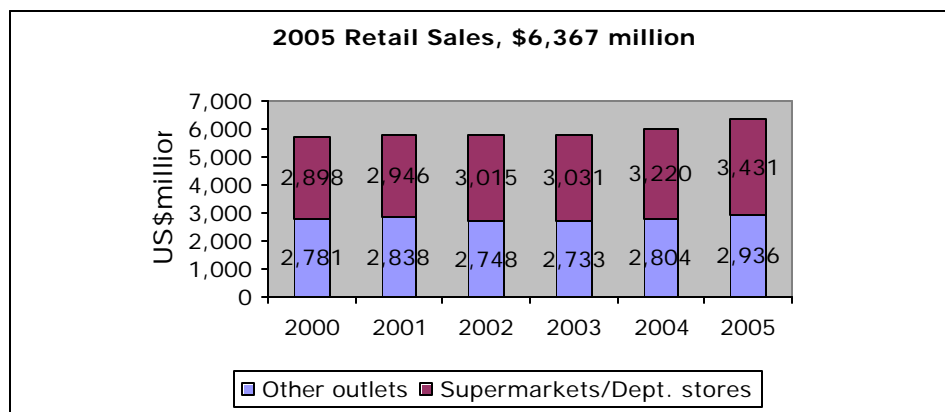
- Hong Kong is one of the most affluent economies in Asia, with a 2006 forecast per capita GDP of \$26,500.
- The Hong Kong economy is robust, with real GDP rising 6.6 percent in the first half of 2006. The government forecast of GDP growth has been maintained at 4-5 percent for 2006 as a whole. The unemployment rate fell to 4.8 percent in June-August 2006, from the peak of almost 9 percent in 2003.
- Consumer spending has posted a solid growth amid stronger consumer sentiment and improving employment prospects. Retail sales grew by 6.8 percent in value in 2005 and 6.5 percent in the first seven months of 2006. Inflation has been edging up, with consumer prices rising by 1.1 percent in 2005 and 2.0 percent in January-August 2006.

- The third phase of the Mainland-Hong Kong Closer Economic Partnership Arrangement (CEPA III) took effect in January 2006, providing further liberalisation measures on trade in goods and services entering the mainland and promising great benefits for Hong Kong's economy. While CEPA is not expected to have a direct impact on U.S. food exports to Hong Kong, it is expected to provide a new source of growth for the city's economy.
- Tourist arrivals in 2005 increased by 7.1 percent, reaching a record 23 million. In the first nine months of 2006, a total of 18.57 million tourists visited Hong Kong, representing a 9.5 percent year-on-year increase. The Hong Kong government has geared up to develop the tourist industry in Hong Kong. In recent years, some major tourist attractions have been completed including Hong Kong Disneyland, the Tung Chung Cable Car System, and Hong Kong Wetland Park. In 2005, tourists spent \$1.3 billion in restaurants (excluding restaurants located in hotels), accounting for 17 percent of Hong Kong's HRI business. In contrast, tourists' contribution to HRI sales amounted to 14 percent in 2004. As such, robust tourism not only has the merit of stimulating a series of peripheral businesses but also has a positive direct impact on HRI revenue. In view of the bullish global economic environment, the Hong Kong Tourism Board expects tourist arrivals to reach 27 million in 2006. In this connection, the multiplying effect of inbound tourism will further boost imports of U.S. products.

Retail Sales and Outlets

- Total retail sales of food and drinks in Hong Kong for 2005 reached \$6.4 billion, representing a growth of 6 percent compared to 2004. (Restaurant receipts in 2005 amounted to \$7.3 billion.) For January – August 2006, retail sales of food and alcoholic drinks for traditional markets and supermarkets, increased 6.2 percent and 6.3 percent respectively, compared with the same period last year. The outlook for spending is promising. Based on the growth rate of the first eight months, Hong Kong's retail sales of food and drinks in 2006 are expected to have a growth of 6 percent as well. Given a continuing buoyant economy, retail sales are expected to continue to grow in 2007 by around 4 percent.
- Despite a highly centralized supermarket retail network, with two supermarket chains accounting for about 80 percent of the supermarket turnover, the total number of retail establishments in 2006 stands at approximately 15,083. These retail establishments include (1) 85 supermarkets and convenience store establishments (the number of supermarkets and convenience stores is about 1,634 if branch outlets are included) and (2) 14,998 wet market stalls and "mom and pop" shop operators. Retail shops in Hong Kong generally are very small in size, about 98 percent of which hire less than 10 employees.
- Traditionally, Hong Kong consumers shop for food daily because of a preference for fresh food. Much of the shopping is still done in traditional markets including wet markets and mom-and-pop shops. While both wet market and supermarket sales are increasing, supermarkets are taking a greater share of total sales. The supermarket's share in terms of retail sales rose from 44 percent of total sales in 1995 to 54 percent in 2005. The retail sales share of supermarket is expected to continue to expand in the future at the expense of that of traditional markets. Many supermarkets in Hong Kong now have successfully tapped the fresh food market by offering fresh foods at very competitive prices and providing a comfortable shopping environment, which is very different from traditional wet markets. In 2000, only \$524 million worth fresh/chilled meat, fish, fruit and vegetables and frozen food were sold in supermarkets. The sales values of the same category in supermarkets greatly

expanded to \$684 million in 2005, increasing 31 percent over 2000. This trend is expected to continue.



Retail Sales between 2000 – 2005, in US\$ million

	2000	2001	2002	2003	2004	2005
Supermarkets/Dept. stores	2,898	2,946	3,015	3,031	3,220	3,431
Other outlets	2,781	2,838	2,748	2,733	2,804	2,936
Total	5,679	5,785	5,763	5,764	6,024	6,367

Percentage of Sales by Retail Outlets

	2000	2001	2002	2003	2004	2005
Supermarkets/Dept. stores	51%	51%	52%	53%	53%	54%
Other outlets	49%	49%	48%	47%	47%	46%
Total	100%	100%	100%	100%	100%	100%

Source: Hong Kong Census & Statistics Department

- In short, wet markets are strong in fresh foods, while supermarkets are strong in processed, chilled and frozen, high added value, and canned food products. The competition between wet markets and supermarkets has intensified in recent years. Some wet markets have turned air-conditioned and provide free shuttle to nearby residential areas. In the next few years, the Hong Kong Government has earmarked over \$77 million to improve the environment of wet markets. Meanwhile, more and more supermarkets have been renovated to make sales of fresh meats possible and to enhance the overall experience of the convenience shopping at a supermarket.

Import Regulations

- Food products can be imported to Hong Kong duty free except for cigarettes and alcoholic drinks. As for technical import requirements, the basic tenet is that no food intended for sale should be unfit for human consumption. Products which require import permits/health certificates include meat, milk and frozen confections. The Hong Kong government accepts import applications from Hong Kong importers. In other words, local importers and not U.S. exporters are required to apply for import permits. U.S. exporters need to supply their agents/importers with necessary documentation such as health certificates from the U.S. government.
- Hong Kong has a labeling regulation. The marking or labeling of prepackaged food can be in either the English or the Chinese language or in both languages. If both the English and Chinese languages are used in the labeling or marking of prepackaged food, the name of the food and the list of ingredients shall appear in both languages. For other labeling requirements and a general guideline to Hong Kong's food import regulations, please refer to Gain Report #HK6017.
- There is no labeling requirement for biotech foods. The Hong Kong government is considering adopting pre-market safety assessment for biotech foods but has set no timetable for implementation. In July 2007, the Hong Kong government has introduced guidelines for voluntary labeling for biotech foods. Please see Report#HK6026.
- Currently Hong Kong does not have any nutrition labeling requirements or guidelines. The government, however, intends to implement a mandatory nutrition labeling system for all prepackaged foods and aims to introduce the drafted legislation to the Legislative Council in early 2007. With the grace period allowed, all prepackaged food items would have to carry a nutrition label by 2011 at the earliest. Details refer to Gain Report #HK5020.

Consumer Preference

- There has been growing popularity of frozen foodstuffs because many working women cannot afford the time to do grocery shopping daily. Besides, more and more consumers believe that frozen foods are more hygienic. However, Hong Kong consumers in general still prefer fresh foodstuffs, particularly fish.
- Due to the increasing prevalence of dual income families, ready-to-cook food has become more popular. The major supermarket chains in Hong Kong have been putting more emphasis on convenience foods.

- There is most potential for growth in the processed/convenience sectors of Hong Kong's retail food markets for U.S. high value consumer foods such as general grocery items, ingredients for home meal replacement, and health food.
- Hong Kong consumers have become increasingly more aware of food safety issues and nutrition values of food products. Clear indications of nutritional value on the package are certainly a good marketing strategy for health foods.
- The sales of organic products have been increasing steadily. A representative of the Great Supermarket revealed that there were only 200 organic items for sale four years ago; the variety has greatly expanded to over 2000 items in recent years. The price discrepancy between conventional and organic foods has also narrowed over the years. Currently, organic products are priced generally 10 percent higher. The most popular organic products are baby foods, vegetables, fruits, eggs, fresh meats, and fruit juices.
- Health foods continue to grow in popularity in Hong Kong because of consumers' desire to enhance general health. The most appealing factors of health foods are "low Glycemic Index" and "Antioxidants".
- Foods categorized as Natural are also appealing to Hong Kong consumers. Nut suppliers market nuts as healthy snacks good for the heart. Cereals are marketed as an effective means of controlling cholesterol.
- According to AC Nielsen's recent survey, the top three functional food types in Hong Kong are soy milk, whole/high fiber products, and fruit juice with added supplements/vitamins and fermented drinks containing good bacteria.
- A survey conducted by the Hong Kong government indicated that about 22.8 percent of all persons aged 15 and over in Hong Kong had taken health supplements during the twelve months before enumeration. Popular health supplements include "vitamins", "Chinese herbs", "calcium", "cod-liver oil/ pills", " products for strengthening immune system", etc.
- Consumption of wine is growing in popularity in Hong Kong. The number of wine retail stores is steadily expanding.
- Hong Kong's relatively sophisticated shoppers are buying an increasing percentage of their groceries in supermarkets, as opposed to traditional wet markets. On the other hand, supermarket chains are able to offer products at more competitive pricing because they have a strong bargaining power at getting supplies and are able to reap the merits of economies of scale.
- Hong Kong consumers' buying decision is largely based on value for money. Generally, consumers are not brand loyal when they are faced with discount privileges of another brand or with "out-of-stock" situation.
- Hong Kong consumers have increasing demand for promotion package and discounts. They are very price sensitive. Marketing tactics such as selling larger economy packs or enclosing complimentary samples are usually used to stimulate sales. The most direct and effective marketing tool is to offer discounts.
- Various promotions have varying impact on consumers' purchasing decisions. Given below were the findings of a survey by Consumer Council. Nearly 75 percent of the

respondents opted for “Direct Price-Cut” as the most important factor in prompting them to buy the goods. This was followed by “Buy One Get One Free” or “Buy Two Get One Free” (55.5 percent); “Add \$1 for One More” (42.7 percent); “Add-Volume Pack” (39.8 percent); and “Free Gift/Coupon” (19.8 percent) which had the least impact on bargain hunters.

- According to a survey by AC Nielsen, Hong Kong consumers are by far the most impulsive shoppers in the region with 67 percent who make unplanned purchases. In contrast, other countries with a relatively high proportion of non-planners are Thailand (14 percent) and Singapore (14 percent). As such, in-store promotions seem to be effective to introduce new products and to stimulate impulsive purchases.
- Because of the limited living space in Hong Kong, it is inconvenient for Hong Kong consumers to store food products. Therefore, bulk pack food products do not sell well in Hong Kong, and small package food products are preferred.
- Since ice-cream is a very popular snack, Hong Kong has witnessed the opening of more and more ice-cream specialty shops such as New Zealand Natural, Kida Garden, Papagallo, along with the long established Ben & Jerry’s, Double Rainbow and Haggen Daz.

Advantages	Challenges
World’s freest economy (2006 Heritage Foundation/Wall Street Journal Index of Economic Freedom). Consistent free trade and free enterprise policies. Free flow of information. Transparent government. No import duty except on wine, liquor, cigarettes, hydrocarbon oils and methyl alcohol. Separate customs territory from Mainland China. No foreign exchange controls.	Severe competition between different supplying countries.
H.K. dollar pegged to the U.S. dollar, so U.S. products are not subject to price fluctuations based on exchange rates. There is an advantage when the U.S. dollar is weak, as it has been over last few years.	A very price sensitive market; importers’ buying decisions depend largely on price, though Hong Kong has a strong niche market for high end products.
Foreign and local businesses operate on a level playing field.	U.S. products are disadvantaged by a higher transport cost when compared with Australian and Chinese products.
As one of the most affluent economies in Asia, a market leader for new products.	Lack of trader and consumer awareness of U.S. foods. Traditional preference for European foods, due to previous ties with the U.K.
International city; residents travel frequently and are receptive to western and novel food.	A virtual duopoly in food retailing allows retailers to charge high slotting (shelf space) fees. See section on Supermarkets.
English labeling is often accepted*.	Labeling regulation getting tougher. Effective July 2007, allergens and additives

	have to be listed *
Sophisticated, reliable banking system.	
English is widely spoken.	
Consistent import regulations and rule of law.	

*Details see Gain report#HK6017.

SECTION II Road Map for Market Entry

A. Entry Strategy

To set up a representative office in Hong Kong is one of the most effective means that U.S. companies can use to sell their products to this market, but it is very costly. Apart from this entry strategy, there are three different ways for new-to-market exporters to get into the Hong Kong market:

Through agents : U.S. exporters may consider hiring a local agent. There are several factors to consider when hiring an agent. 1) Does the prospective agent already have an account with major supermarkets? Supermarkets will more readily accept new brand products when the agent already has an account with the supermarkets. 2) Does the prospective agent have a good marketing record and widespread distribution network?

The advantage of having an agent is that it can help with marketing and distribution. Some companies may secure a very competitive price package with TV/magazine/radio for advertisements. In addition, well-established companies have extensive distribution networks not limited to one or two supermarkets but to very extensive distribution outlets.

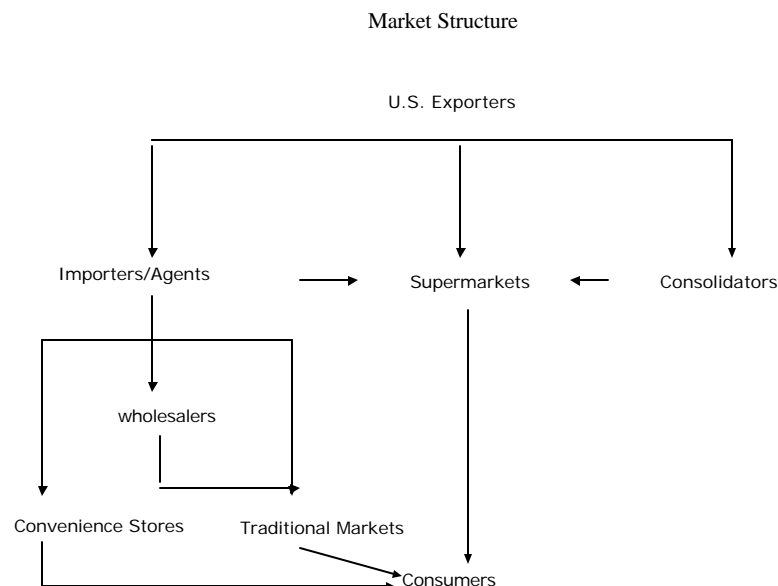
Direct to supermarkets : For branded products to sell direct to supermarkets, supermarkets usually require exclusive rights in selling the products in Hong Kong through their own outlets only. Otherwise, they will not consider any direct imports. In this case, expensive listing fees may be waived. For non-branded and large turnover products such as fruit, meat, and vegetables, supermarkets tend to buy direct from overseas exporters to cut costs.

Direct selling to supermarkets is difficult to handle because they demand strict on-time delivery and very often will not be able to take a whole container. Logistics is the largest problem that U.S. exporters have to deal with if they want to sell direct to supermarkets. However, they can better test the market if dealing directly with retailers.

Through consolidators : Major supermarkets in Hong Kong work with U.S. consolidators for some of their products. Their purpose is to introduce new

products, which have already been very popular in other overseas markets, to Hong Kong.

B. Market Structure



- U.S. exporters intend to sell to supermarkets can go through either one of the above channels. For products with large and regular turnover such as meats and fruits, major supermarkets try to order directly from exporters so as to cut costs. While certain supermarkets have tried to order an assortment of imports through consolidators, the bulk of supplies come from local agents or importers.
- Convenience stores and traditional retail outlets buy goods from local importers and agents. Due to relatively little turnover, they are not interested in buying direct from exporters or through consolidators. Therefore, U.S. food exporters have to go through Hong Kong importers to have their products sold in convenience stores or traditional markets.
- ATO Hong Kong provides lists of local supermarkets and importers/wholesalers to U.S. exporters and we are happy to line up appointments if U.S. exporters come to Hong Kong exploring the market.
- To promote U.S. food products, the ATO sponsors major trade shows in Hong Kong such as HOFEX (May 13 -16, 2007) and the Natural Products Expo Asia (June 27 –29, 2007). U.S. exporters may consider to participate in these trade shows so as to introduce their products to Hong Kong buyers and buyers from other countries in the region.

C. Supermarkets – Company Profiles

Name of Retailer	Ownership	Food Sales US\$	No. of Outlets	Location	Type of Purchasing agent
Wellcome	Hong Kong	over \$1 billion	247, 20 which are superstores	Hong Kong	Importers/Agents Exporters Consolidators
ParknShop	Hong Kong	over \$1 billion	226, 46 of which are superstores*	Hong Kong	Importers/Agents Exporters Consolidators
China Resources Supermarket	China	not available	99, 5 of which are superstores	Hong Kong	Importers/Agents Exporters
Dah Chong Hong	Hong Kong	not available	50	Hong Kong	Importers/Agents Exporters
Jusco Stores (HK) Ltd.	Japan	not available	7 within department stores and 2 separate stores	Hong Kong	Importers/Agents
City Super	Hong Kong	not available	4 and 1 other called Log-on selling snacks only; 1 convenience store called Pit-in	Hong Kong	Importers/Agents Consolidators
Oliver Delicatessen	Hong Kong	Not available	1	Hong Kong	Importers/Agents Consolidators
Uny	Japan	Not available	1	Hong Kong	Importers/Agents
Sogo	Japan	Not available	2	Hong Kong	Importers/Agents

- According to the latest figures available, in 2004 there were 85 supermarkets in Hong Kong but only 9 of them had 5 or over branch outlets. About 63 supermarkets had only one store without any branch outlets.
- In the past decade, there has been a substantial decline of small supermarket operators. Between 1997 and 2004, the number of supermarket operators decreased by 31 percent whereas the sales and the number of persons engaged in the

supermarket industry rose by 11 percent and 29 percent respectively. These figures reflected that the supermarket industry has been growing but in a way not favorable to small operators. Many small operators left the market due to severe competition.

	1997	2004	% change
No. of supermarkets	124	85	-31%
No. of persons engaged	15,768	20,369	29%
Value of purchases of goods for sale	\$ 2,285 M	\$2,294 M	--
Total Sales	\$ 3,109 M	\$3,455 M	11%

- There are two dominant supermarket chains in Hong Kong: The Wellcome Co. Ltd. (247 outlets with 20 superstores) and ParknShop (over 226 with 46 superstores). ParknShop and Wellcome account for about 80 percent of the supermarket turnover. Both supermarkets are able to work closely with real estate developers to open stores in strategic locations, thus maintaining their significant market share. The other players include: China Resources Supermarket (CRC), Dah Chong Hong, Jusco and City Super.
- In the past decade, a “superstore” concept has emerged in the operation of supermarkets, blending the Western supermarket style with a traditional Hong Kong wet market. Superstores offer traditional Chinese fresh food like live fish, meats, ready-to-eat foods and market-style fruit and vegetables as well as the most extensive range of international products.
- ParknShop opened its first superstore in 1996 with a floor area of 45,000 sq. ft. Presently, its largest supermarket in Hong Kong has a floor area of 72,000 sq. ft. giving customers a modern one-stop shopping solution. The store sells over 20,000 product categories ranging from snacks to electrical household appliances.
- The ParknShop supermarket chain carries two own-label product lines, namely PARKnSHOP and Best Buy, first introduced in 1995.
- ParknShop is also associated with three other supermarkets by the name of Great, Taste, and Gourmet. These high-end supermarkets are after the more affluent clientele. They are ideal outlets for innovative, quality and priced international food products. These stores also carry a wide selection of organic products. Great adopts a stylish international food hall concept and its flagship store offers over 46,000 gourmet items. The first 35,000 square feet TASTE food galleria was opened in November 2004, and features more than 25,000 quality food items sourced from around the world. Gourmet, opened in 2005, occupied 15,000-square-foot store offering a selection of over 20,000 products carried across 30 merchandise categories of quality and premium foods. The average expenditure per customer for Gourmet and Taste is expected to be \$18 and \$13 respectively.
- Dairy Farm, which owns another major supermarket chain – Wellcome, will also be opening an upscale supermarket in Hong Kong’s central commercial area catering to the more affluent clientele. The new store called Three Sixty will be opened in mid November. With a floor area of 23,000 square feet, it will be Hong Kong’s largest retail outlet for organic and natural products. About 6,000 items or 70 percent of the items in the store will be organic or natural products. The store will include an organic sector for baby products. “Health” and “natural” are the key concepts of this store.

- China Resources focuses on local customers. While carrying a variety of products from different countries, a major portion of them comes from China.
- Dah Chong Hong's outlets are generally located near wet markets. While being an importer of a variety of products, its retail outlets focus on frozen meat and seafood products. Dah Chong Hong is a major food importer too.
- Citysuper and Oliver Delicatessen capture an upscale market and no listing fee is required. Clientele includes mainly well-off middle class and expatriates. Customers are generally receptive to western foods. Both high-end supermarkets require no listing fees. Oliver carries over 6,000 SKUs.
- Gateway Superstore and PrizeMart are two supermarkets in Hong Kong selling primarily U.S. products. PrizeMart has 11 stores and carries about 1,500 SKUs. Gateway, with only one store in the Central district, carries over 4,500 SKUs, all of which imported directly from US consolidators. Both supermarkets do not charge listing fees.
- Jusco, Sogo and Uny are Japanese department stores with a supermarket section. These supermarkets attract many middle-class customers, who are receptive to new products and do not mind to pay for higher prices for better quality products. These three stores are popular spots for in-store promotions as they are packed with consumers seven days a week. Last year, Jusco opened 2 separate supermarkets, which are not set up within a department store.
- Almost all Hong Kong supermarkets require listing fees, that is, a fee charged to allow a new product to be put on their shelves. This is a one-off fee for a trial period. The listing fees are extremely negotiable and vary greatly among different supermarket chains. Major supermarket chains, such as Wellcome and ParknShop which have many branch stores, have expensive listing fees. Industry sources revealed that key supermarket chains may charge HK\$1,000 (US\$130) per SKU for each of its store. A 30 percent discount may be offered to certain suppliers. The discount offered varies tremendously depending on the popularity of the products and the bargaining power of the supplying companies. Agents/importers will not bear this cost, which is transferred to their principals. In short, all supermarkets require listing fees except those belonging to Japanese department stores. (Jusco is the only Japanese department store food retailer that requires a listing fee.)
- U.S. exporters should be prepared to encounter numerous trading term demands from Hong Kong food retailers, such as promotional discounts (number of discount promotions offered each year); back-end income (flat rebate per year that a U.S. exporter has to pay to the retail chain based on the annual turnover); D.G.A. (Distribution allowance - the fee that the supermarkets charge for distributing the products from its warehouse to its many branch stores); and incentive rebate (a percentage of turnover rebated to the supermarkets in case sales exceed the agreed amount). It can be expected that the bigger the supermarket, the harsher the trading terms. For general reference, about 15 percent of the annual turnover has to be rebated to the major supermarkets and 8 percent to small ones. Agents representing very popular items with large turnover usually have a stronger bargaining power and will be able to negotiate for a lower rebate rate.
- Different products have different mark-ups. A dried fruit importer revealed that an importer usually operates on a mark up of 5 percent to retailers who would then mark up another 30 percent to 35 percent to consumers.

- In face of strong competition, major supermarket stores very often offer discounts and tend to transfer the cost to suppliers by requesting lower prices for supplies. Given supermarkets' strong bargaining power as they have many retail outlets, many suppliers have to give supermarkets special discounts which ordinary retailers do not enjoy.
- There is excellent potential growth in Hong Kong's retail food market for U.S. grocery store items, particularly new and different items, as food retail outlets continue to increase and diversify. Because of established ties and traditional relationships, most of Hong Kong's supermarket chains traditionally looked to Britain, Australia, New Zealand, and Canada for supplies. In recent years, however, buying habits are shifting and many more American items are now available on local grocery store shelves. Supermarkets tend to use consolidators to help them source new products which are popular in the United States.

D. Convenience Stores – Company Profiles

Note: Gas station marts are not included in this section because they are not significant in Hong Kong. This is a small city and there are not any real long drives.

Retailer Name	Ownership	No. of Outlets	Locations	Purchasing agent	Year established	Clients' age
7-Eleven	Hong Kong	711	HK	Importers Agents	1981	15-35
Circle K	Hong Kong	238	HK	Importers Agents	1985	15-35

- There are around 950 convenience stores in Hong Kong. Two major chains dominate the market: 7-Eleven (711 outlets) and Circle K (238 outlets). They are targeting the customer age group of 15-35. Convenience stores are characterized by round-the-clock operation. Since only a limited choice of brand names is available and prices are generally less competitive, most purchases are "convenience" in nature, i.e. goods are normally bought in small quantities for immediate consumption. Good sales items include packaged drinks, beer and snack food. The average store size of a convenience store is 1,000 sq. ft. Listing fees are also required for convenience stores.
- 7-Eleven is owned by Dairy Farm, which is also the parent company of the giant supermarket chain of Wellcome. Many of 7-Eleven stores are strategically located in MTR (subway) and KCR (train) stations, popular shopping malls and housing developments throughout Hong Kong.
- According to a study, Hong Kong can accommodate 1,200 convenience stores. Given that there are about 950 stores presently, there is still a room for expansion. The primary strategy of convenience stores is to increase services providing "convenience" to consumers and to increase the number of stores so as to reach economies of scale. 7-Eleven, operated on a franchise basis, is able to expand the number of stores quickly. Circle K is owned by a listed company and does not work on franchise basis.

Between 2004 and 2006, the number of stores of 7-eleven and Circle K increased 18 percent (111 stores) and 20 (41 stores) percent respectively.

E. Traditional Markets – Sub-Sector Profile

- Almost all of the clientele of the traditional markets are local Hong Kong Chinese people.
- Traditional markets include wet markets and mom-and-pop shops. They are widespread throughout the territory. Traditional markets used to account for the lion's share of food retail. For example, they occupied around 54 percent of total retail food sales between 1995 and 1997. Yet supermarkets sales have exceeded traditional markets sales since 1998, and the dominating trend of the former is likely to persist and deepen in the future. Despite the growing significance of supermarkets in terms of food retailing, traditional markets remain as key food retail outlets, particularly for seafood, meat and groceries. Wet markets in Hong Kong have changed gradually over the years. The newly built markets are air-conditioned and more hygienic and more environmentally pleasant than the old ones. Some, but not all, stalls in wet markets have freezers and chilling equipment, which is necessary to maintain food quality.
- Mom-and-pop shops around the housing estates and schools are ideal retail outlets for drinks and snack foods. One feature of traditional markets is that stalls are small, but the service they offer is personal.
- A traditional mom-and-pop shop which started business in 1990 has expanded to 67 stores spreading all over Hong Kong in recent years. The stores are called Yu Kee, with floor area ranging around 1,500 sq. feet each. They sell mainly processed foods and produce. Most of the food supplies come from China and South East Asia. They also import snack foods and drinks from Europe. However, U.S. foods are not yet on their shelves. The stores feature cheap prices and are after the mass market.
- Another chain store worth mentioning is called Appolo (Magic House) Superstore Ltd. The company owns 46 retail stores, which are operated like "convenience stores" except that their business hours are only around 10 hours instead of 24 hours. They primarily sell snack foods, drinks and ice cream.

SECTION III. COMPETITION

Note : 2005 statistics; Market Share in terms of Import Value

Source : World Trade Atlas – Hong Kong Census & Statistics Department

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
Snack Foods Imports \$265 million 66,290 MT Retained Imports \$133 million 35,374 MT	1. China – 25% 2. Japan – 16% 3. Italy – 15% U.S. – 7%	<p>Though China is the largest supplier, imports include some international brands, which have manufacturing establishments in China.</p> <p>Japanese snacks have good retail outlets in Hong Kong through supermarkets located in Japanese department stores.</p> <p>Hong Kong's retained imports of U.S. snacks greatly increased from \$9 million in 2004 to \$13 million in 2005, representing a rise of 44%. The major category is sugar confection.</p>	Local production is insignificant.
Red Meats, chilled/frozen Imports \$759 million 509,570 MT Retained Imports \$641 million 382,736 MT	1. Brazil – 31% 2. China – 22% 3. Canada – 6% U.S. – 3 %	<p>Products from Brazil and China are price competitive, but they are of different market segments from U.S. products.</p> <p>Brazil exports largely offals and pork to Hong Kong.</p> <p>China exports largely frozen pork.</p> <p>Canadian beef was able to establish a foothold in the Hong Kong market in 2005 when U.S. beef was not allowed entry owing to BSE cases in the U.S.</p> <p>U.S. market share dropped from 21% in 2003 to 3% in 2005 as a result of the ban.</p> <p>Hong Kong is open to U.S. beef since the beginning of 2006. Hong Kong currently allows U.S. boneless beef derived from animals less than 30 months of age.</p> <p>Bone-in beef and offals from the U.S. are not yet allowed entry into Hong Kong. The challenges facing U.S. beef exports to Hong</p>	Local production is largely on freshly slaughtered meats.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
		<p>Kong include competition posed by Canadian beef and Hong Kong government's zero tolerance on bone fragments.</p> <p>U.S. beef is highly regarded in Hong Kong. It is always the first choice for high-end restaurants and sophisticated consumers. U.S. beef is largely on the high-end market.</p>	
Poultry Imports \$581 million 533,316 MT Retained Imports \$417 million 348,208 MT	1. Brazil – 32% 2. China – 26% 3. U.S. – 21%	<p>Brazil has become the leading supplier of poultry for Hong Kong market since 2004 when Hong Kong banned entry of U.S. poultry products between February 11, 2004 and April 30, 2004 due to outbreaks of Avian Influenza cases in the U.S. Though the ban was then lifted, Brazil continues to be the largest supplier due to price competitiveness of its products.</p> <p>The reduced supplies of live chickens to Hong Kong have resulted in increased demand for chilled whole chickens from China.</p> <p>Hong Kong's new certification requirement for U.S. chicken feet, which took effect in May 2005, has reduced U.S. chicken feet supplies to Hong Kong. By the new requirement, U.S. chicken feet are required to have ante mortem and post mortem inspection.</p>	Local production is on freshly slaughtered meats.
Fresh Fruit Imports \$687 million 952,331 MT Retained Imports \$476 million	1. U.S. – 33% 2. Thailand – 17% 3. Australia – 9%	<p>U.S. fresh fruits are highly regarded as having good quality.</p> <p>Thai and Australian Trade commissions in Hong Kong aggressively sponsor trade promotion activities.</p>	No local production.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
560,277 MT			
Processed Fruit & Vegetables Imports \$256 million 207,774 MT Retained Imports \$199 million 154,891 MT	1. China - 36% 2. U.S. – 26% 3. Thailand – 7%	Supplies from China are price competitive. Besides, some international brands have operations in China and their exports to Hong Kong are considered as imports from China. Products from the U.S. are more for the high-end market. Potato chips and French fries are major U.S. export categories to Hong Kong.	Local production is insignificant.
Tree Nuts Imports \$ 257 million 73,871 MT Retained Imports \$200 million 43,148 MT	1. Iran – 63% 2. U.S. – 24% 3. Australia 2%	63% of the tree nuts imported to Hong Kong are pistachios. Iran is very strong in supplying pistachios, occupying about 98% of total import supplies in Hong Kong. The U.S. is very strong in supplying almonds and hazelnuts. Some of the imports are re-exported to China for processing.	No local production
Wine & Beer Imports \$163 million 144,105,086 liter Retained Imports \$140 million 138,869,604 liter	1. France – 29% 2. China 16% 3. Korea - 12% U.S. – 10 %	China and Korea are major suppliers for beer while France is the major supplier for wine. French wine is highly regarded in Hong Kong though expensive. Hong Kong people are not very familiar with U.S. wines. The U.S. exported \$15 million worth of wine and beer to Hong Kong, accounting for 11% of the market share. Hong Kong is gradually fostering a wine drinking culture. Beer is a popular drink in Hong Kong.	Hong Kong does not have any wine production. San Miguel is a popular local brand for beer. Locally produced beer is subject to the same tax rate as imports.

Product Category	Major Supply Sources	Strengths of Key Supply Countries	Advantages and Disadvantages of Local Suppliers
		Beer & liquor with less than 30% alcohol is subject to 40% tax and wine 80%.	

SECTION IV. BEST PRODUCT PROSPECTS

Note :

- Hong Kong food supplies largely rely on imports. Domestic production is very minimal so the market size in the following table is equal to retained imports without taking into account local production. U.S. exports to Hong Kong are also based on imports minus exports.
- Import tariff rate for all products in the tables is zero. (Exceptions: Beer & liquor with less than 30% alcohol – 40%; all wines - 80%, liquor with more than 30% alcohol: 100%).

A. Products Present in the Market Which have Good Sales Potential

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Oranges	108,213 MT	\$101 million	- 11% (vol) 0% (value)	Hong Kong imports oranges from other countries including South Africa and Australia. Major supermarket chains in Hong Kong sell Sunkist supplied from South Africa.	U.S. exported \$64 million worth of oranges to Hong Kong, accounting for 63% of the market share. Consumers are brand loyal to Sunkist and are willing to pay a premium for U.S. Sunkist.

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Grapes	29,096 MT	\$77 million	-4% (vol) 5% (value)	Strong competition from Chile & Australia	<p>U.S. exported \$42 million worth of grapes to Hong Kong, accounting for 54% of the market share.</p> <p>Competitors supply grapes in different seasons.</p> <p>About 67% of Hong Kong's grapes imports are re-exported to China. Hong Kong serves as a gateway for U.S. grapes to China.</p>
Molluscs	45,838 MT	\$524 million	5 % (vol) 11% (value)	U.S. scallops and oysters compete severely with products supplies from Australia and Canada respectively. Australia products enjoy a relatively cheaper freight cost.	<p>U.S. exported \$38 million worth of molluscs to Hong Kong, accounting for 7% of the market share.</p> <p>Demand for seafood in Hong Kong is strong. U.S. oysters and scallops are highly regarded in the market.</p>
Pork & Offals	302,527 MT	\$470 million	10% (vol) 10% (value)	China and Brazil are the major suppliers because their products are	U.S. exported \$25 million worth of pork and offal

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				very price competitive. Also, there is a big demand for price competitive prepared/preserved meatballs and other products typical in Chinese dishes in Chinese restaurants. China enjoys the advantage of low processing cost.	<p>products to Hong Kong, accounting for 5% of the market share.</p> <p>Hong Kong has a high demand for U.S. front & hide feet, and offals.</p> <p>U.S. is the largest supplier of sausages.</p> <p>U.S. products are highly regarded for quality and food safety.</p>
Almonds	2,815 MT	\$22 million	- 16% (vol) 18% (value)	<p>There is a lack of product awareness among general consumers.</p> <p>Hong Kong consumers are not very well aware that almonds are a very healthy snack.</p> <p>In recent years, there has been a short supply of U.S. almonds, resulting in very high prices.</p>	<p>U.S. exported \$22 million worth of almonds to Hong Kong, accounting for over 99% of the market share.</p> <p>Consumers are becoming more health conscious and the nutritional value of almonds is a strong selling point.</p>
Sauces	64,713 MT	\$89 million	3% (vol) 5% (value)	China and Thailand are the two major competitors. The oriental flavor of sources from these	U.S. exported \$17 million worth of sauces to Hong Kong, accounting for

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
				countries is a distinct advantage.	19% of the market share. Hong Kong people are receptive to new tastes. The availability of much international cuisine offers a demand for U.S. sauces.
French Fries	20,230 MT	\$18 million	6% (vol) 6% (value)	Canada and New Zealand supply french fries to the market. Also, french fries companies have plants in China providing products to Hong Kong.	U.S. exported \$16 million worth of french fries to Hong Kong, accounting for 89% of the market share. Hong Kong has a burgeoning catering industry offering a variety of international cuisine, thus creating a demand for french fries.
Ginseng	2,038 MT	\$71 million	27% (vol) 1% (value)	Canadian ginseng is offered at very competitive prices and has abundant supplies. Ginseng products from other countries are labeled as U.S. products.	U.S. exported \$16 million worth of ginseng to Hong Kong, accounting for 23% of the market share. Hong Kong Chinese regards ginseng as a healthy product

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					and is widely used in soups.

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Eggs	1.7 billion pieces	\$73 million	1% (vol) 0% (value)	Eggs from China are very price competitive. The market is mature.	U.S. exported \$15 million worth of eggs to Hong Kong, accounting for 21% of the market share. The market has a high demand for U.S. small white eggs. Hong Kong consumers are very impressed by U.S. egg product quality and safety.
Hazelnuts	3,667 MT	\$14 million	-4% (vol) 23% (value)	Consumers are not very well aware of the health value of the products.	U.S. exported \$14 million worth of hazelnuts to Hong Kong, accounting for over 99% of

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
					<p>the market share.</p> <p>Hong Kong is very close to China. Products are easily re-exported to China for processing.</p> <p>Hong Kong consumers are becoming more health conscious and are more receptive to foods with high nutritional value.</p>
Soups	15,285 MT	\$29 million	1% (vol) 4% (value)	China is the biggest competitor. However, many international brands have processing plants in China and exports of these international brands to Hong Kong are also considered as China exports.	<p>U.S. exported \$11 million worth of soup products to Hong Kong, accounting for 37% of the marketing share.</p> <p>U.S. products are highly regarded for product quality and safety.</p> <p>Hong Kong consumers are receptive to western cuisine.</p>
Fruit &	18,384 MT	\$25 million	0% (vol)	Hong Kong	U.S. exported

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Vegetable Juices			8% (value)	consumers are receptive to freshly squeezed fruit juices, which are easily available in fruit stores; and fruit stores are conveniently located everywhere in Hong Kong.	<p>\$11 million worth of fruit & vegetable juices to Hong Kong, accounting for 44% of the market share. It is the largest supplier.</p> <p>Hong Kong consumers have confidence in product quality and safety of U.S. food and drinks.</p> <p>Healthy drinks are getting more popular in Hong Kong.</p>
Pet Foods	20,387 MT	\$28 million	7% (vol) 13% (value)	The limited living space in Hong Kong does not encourage pet population.	<p>U.S. exported \$10 million worth of pet foods to Hong Kong, accounting for 35% of the market share.</p> <p>Hong Kong consumers have confidence in U.S. product quality and safety.</p> <p>Pet owners are willing to pay a premium for quality pet foods.</p>

Product Category	2005 Retained Imports (MT)	2005 Retained Imports (\$ million)	2001 – 2005 Average Annual Retained Import Growth	Key Constraints Over Market Development	Market Attractiveness For USA
Organic Products	Statistics products are not available			Only very few consumers are willing or able to afford to pay for the premium for organic products. Strong competition from products from Australia and Europe exist.	The organic market is growing and consumers are getting more health conscious.

C. Products Not Present Because They Face Significant Barriers

Currently, U.S. bone-in beef products and offals are not allowed entry to Hong Kong, because of BSE cases in the U.S.

SECTION V. POST CONTACT AND FURTHER INFORMATION

Foreign Agricultural Service (FAS)

Home Page: <http://www.fas.usda.gov>

Agricultural Trade Office

American Consulate General

18th Floor, St. John's Building

33 Garden Road, Hong Kong

Tel: (852) 2841-2350

Fax: (852) 2845-0943

E-Mail: ATOHongKong@usda.gov

Internet Homepage : <http://www.usconsulate.org.hk>

<http://www.usfoods-hongkong.net>

Department to implement food safety control policy

Food & Environmental Hygiene Department

Center for Food Safety

43/F., Queensway Govt Offices

66 Queensway

Hong Kong

Tel: 852-2868-0000

Fax: 852-2834-8467

Web site: <http://www.fehd.gov.hk>

E-mail: enquiries@fehd.gov.hk

Department to control the importation of plants & live animals

Agriculture, Fisheries & Conservation Department
5-8/F., Cheung Sha Wan Govt Offices
303, Cheung Sha Wan Rd
Kowloon, Hong Kong
Tel: 852-2708-8885
Fax: 852-2311-3731
Web site: <http://www.info.gov.hk/afcd>
E-mail: mailbox@afcd.gov.hk

Department to register health foods containing medicine ingredients

Department of Health
Pharmaceuticals Registration
Import & Export Control Section
18th Floor, Wu Chung House
213 Queen's Road East, Wanchai
Hong Kong
Tel : 852-2961-8754
Fax : 852-2834-5117
Web site : <http://www.info.gov.hk/dh/index.htm>

Department to issue licence for imported dutiable commodities

Hong Kong Customs & Excise Department
Office of Dutiable Commodities Administration
6-9th floors, Harbor Building
38 Pier Road
Central
Hong Kong
Tel: 852-2815-7711
Fax: 852-2581-0218
Web site: <http://www.info.gov.hk/customs>
Email: customsenquiry@cutsoms.gov.hk

Department for Trade Mark Registration

Intellectual Property Department
Trade Marks Registry
24th and 25th Floors, Wu Chung House
213 Queen's Road East
Wan Chai
Hong Kong
Tel: 852-2803-5860
Fax: 852-2838-6082
Web site: <http://www.info.gov.hk/ipd/eng/index.htm>

Semi-government Organization Providing Travel Information

Hong Kong Tourist Association
9th - 11th floors, Citicorp Center,
18 Whitfield Road, North Point, Hong Kong

Tel: (852) 2807-6543
Fax: (852) 2806-0303
E-mail: info@hkta.org
Home Page: www.hkta.org

Semi-government Organization Providing Hong Kong Trade Information

Hong Kong Trade Development Council
38th Floor, Office Tower, Convention Plaza
1 Harbor Road, Wan Chai, Hong Kong
Tel: (852) 2584-4188
Fax: (852) 2824-0249
E-mail: hktdc@tdc.org.hk
Home Page: <http://www.tdctrade.com>